National Security Personnel System

Why NSPS?

- Current system is inadequate to manage DoD civilian personnel in today's national security environment
  - Hiring is too slow; adversely affects our ability to attract and retain high quality talent
  - Current pay system results in outstanding performers being paid the same as poor performers
  - Rigid, inflexible rules hinder DoD's ability to act without delay to meet mission needs and manage from "total force" perspective

- DoD has over twenty years of successful experience with testing personnel flexibilities – it is now time to expand those flexibilities to the rest of the Department

- DoD needs a flexible, agile HR system to meet the demands of a dynamic national security mission, while preserving the core, enduring values of the civil service

Why Now? Change Drivers

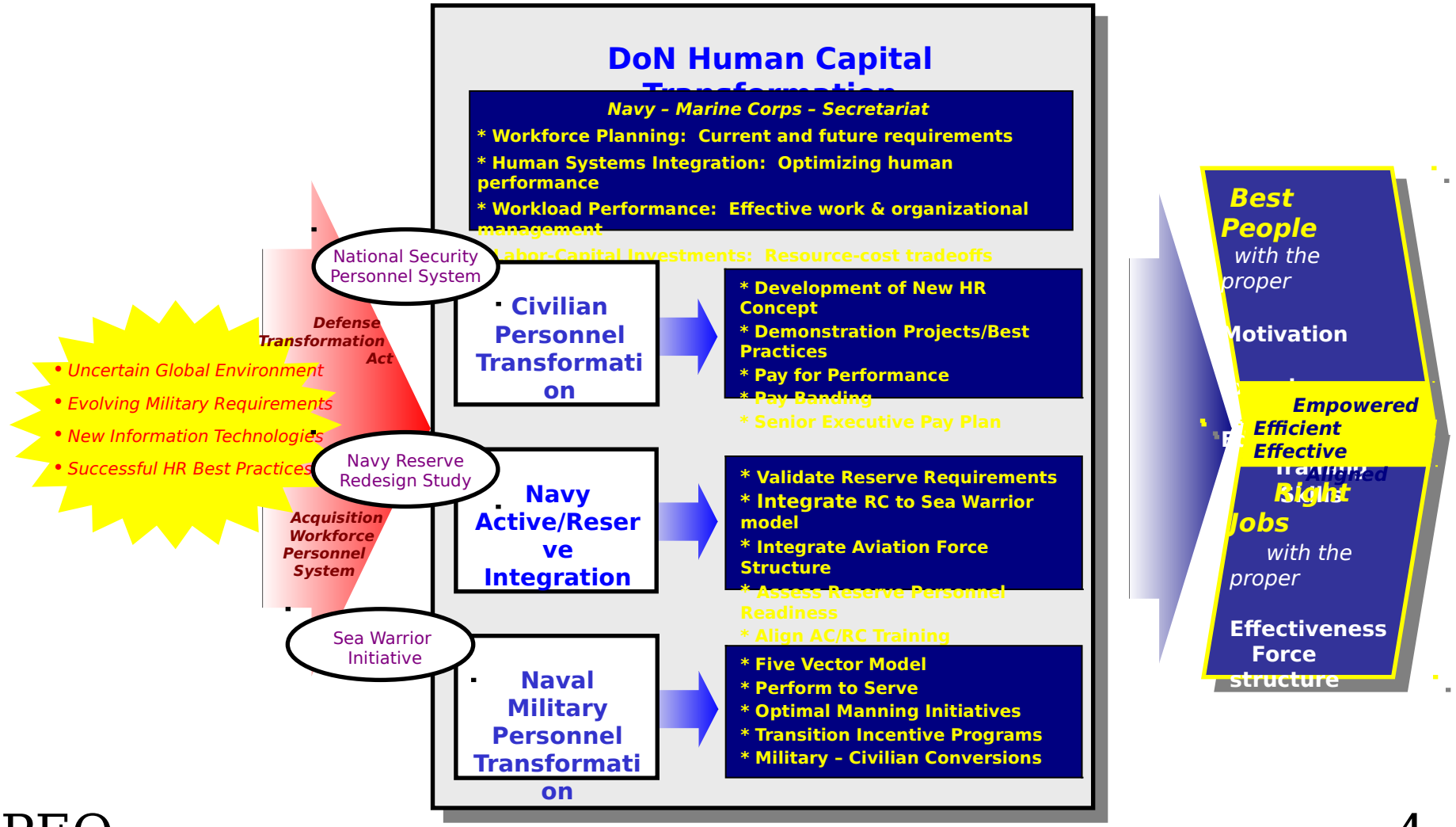
- Demands historically placed on DoD and its civilians have elevated since 9/11 – with no ceiling in sight

- Quick and effective civilian personnel actions will free military personnel to support the war fighting mission
  - For example
    - Hiring civilian mechanics allows military maintainers to keep equipment operational in a theatre of operation
    - Adequately compensating/rewarding an engineer improves retention, retains critical skills and supports the war fighter

- Demonstration projects have been testing personnel flexibilities for years with much success

- Needed to support DON Human Capital Transformation Vision

VISION: HUMAN CAPITAL TRANSFORMATION- KEY TO ACHIEVING NAVAL POWER 21



Benefits of Proposed NSPS

- Proposed HR system provides greater flexibility to respond effectively to mission needs, while fostering excellence and ensuring accountability

- Employees will have greater opportunity to affect their pay through excellent performance
  - Pay increases based on performance and/or contribution to mission success; clear performance expectations linked to strategic Department goals and objectives
  - Safeguards built into performance appraisal process to promote fairness, transparency, and accountability

- Managers will be able to recruit/retain high quality talent more effectively
  - Ability to offer more competitive, market-sensitive compensation
  - Ability to fill jobs faster with streamlined hiring processes

- Improved reduction in force (RIF) procedures provide for less disruption associated with RIF and greater emphasis on performance as a factor in retention

- Expedited disciplinary and appeals process provides for faster resolution of workplace issues, while preserving due process rights

- New labor relations system recognizes critical national security mission of the Department; balances employee collective bargaining rights with DoD's need to act swiftly to meet mission requirements

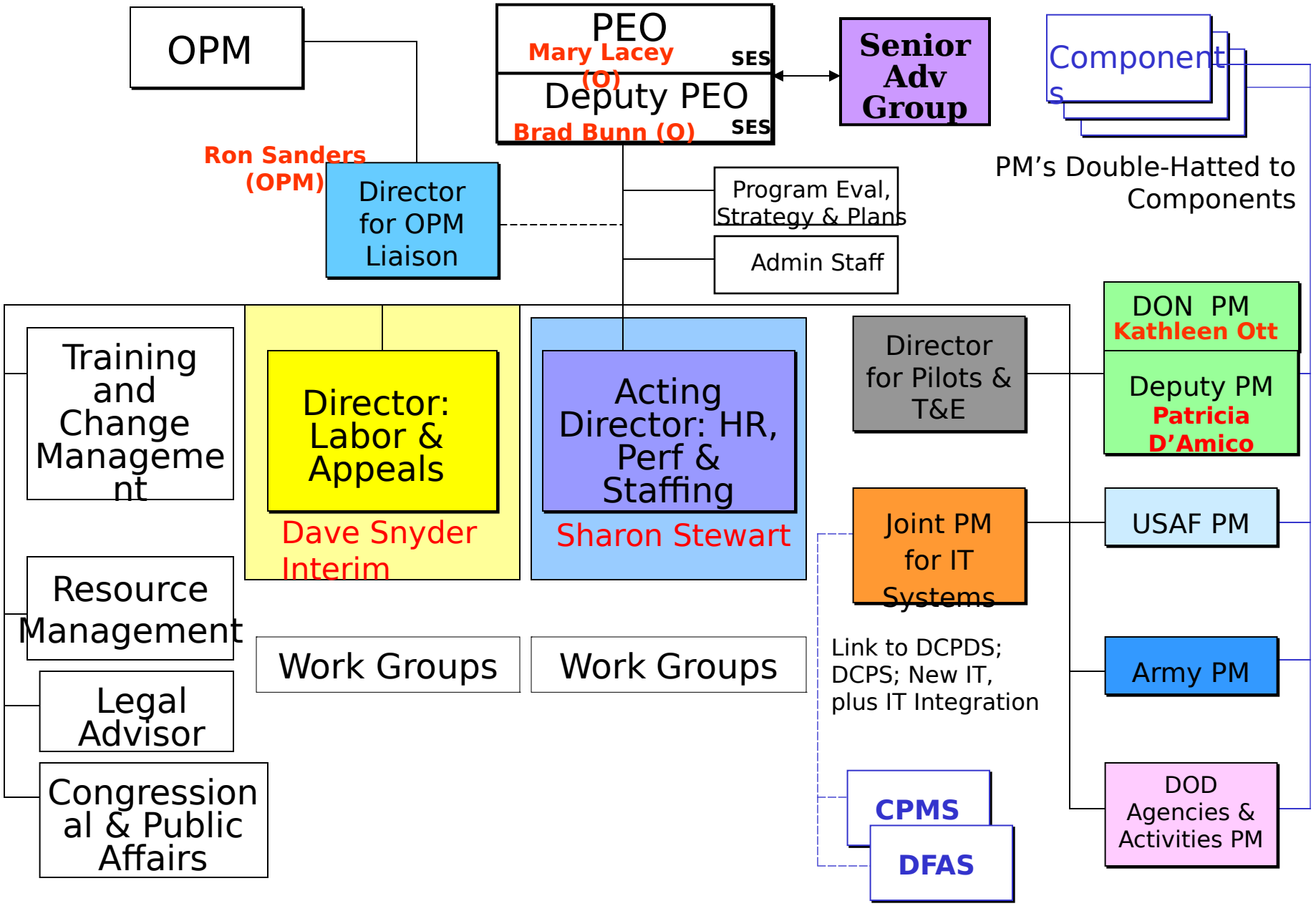
How We Got Here

- November 2003, Congress granted DoD broad authority to establish a new human resources management system to support its critical national security mission
- In early 2004, DoD established a program office (based on acquisition management model) to oversee design and implementation, with senior leadership oversight and guidance, and partnership with OPM
- DoD and OPM convened six design working groups to develop options for senior leadership consideration, with input from numerous stakeholders, including employees, unions, managers, public interest groups, and senior leaders
- Senior leadership has reviewed options and recommended a proposed system design; Secretary Rumsfeld and OPM Director James approved proposed NSPS regulations, issued in the Federal Register for public review and comment

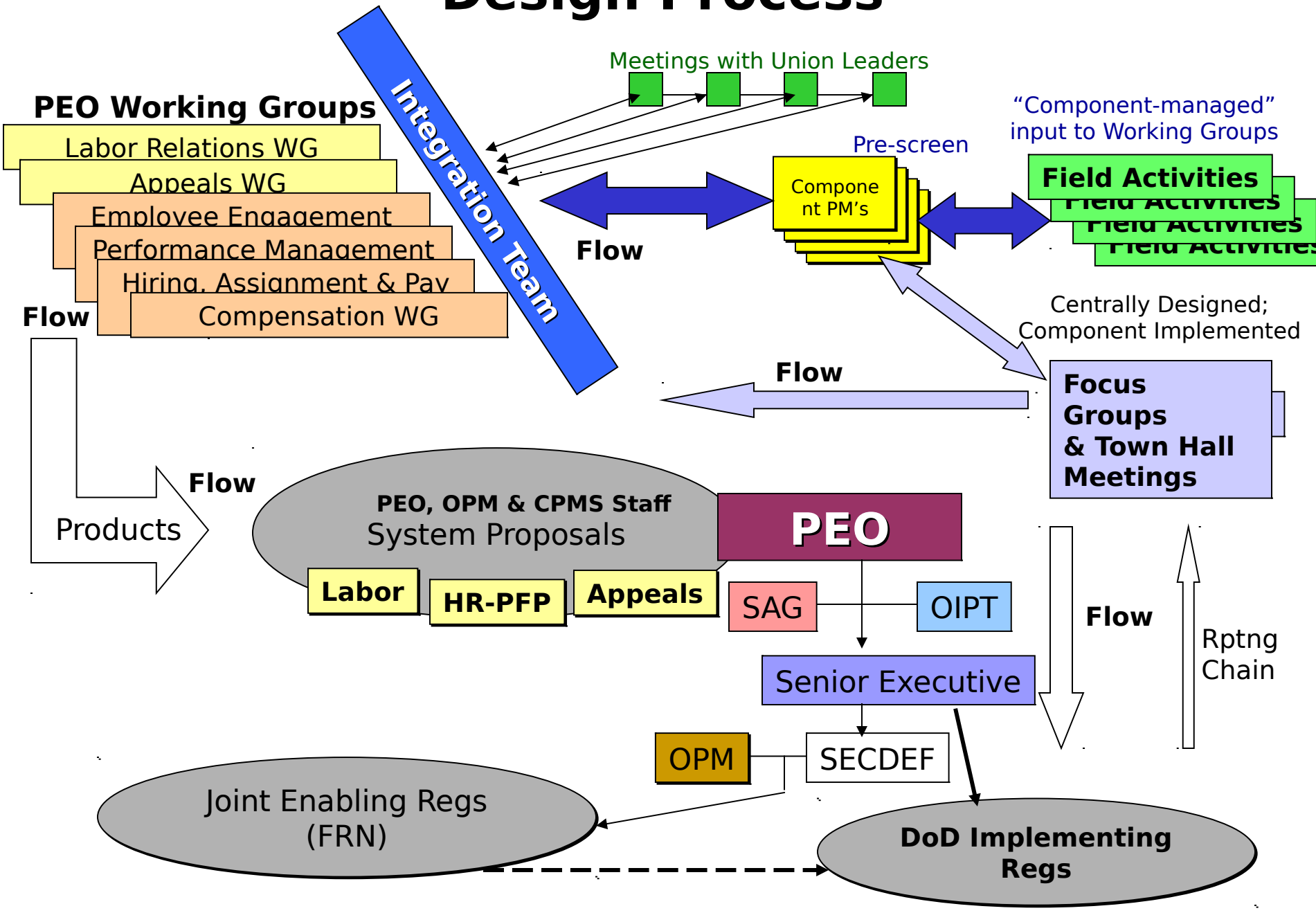
DESIGN PROCESS HIGHLIGHTS

Working Groups included over 100 participants from DoD and OPM, including HR experts, military members, line managers, and functional area experts (EEO, labor relations, legal, comptroller)
Conducted over 100 Focus Groups and 50 Town Hall meetings worldwide to gather input from employees, supervisors, union officials, and HR practitioners
Reviewed and considered data and reports from existing alternative personnel systems, including DoD demonstration projects and other Federal agencies
Held several meetings with DoD employee unions (over 40 labor organizations) to share interests and concerns, discuss potential design options, and gather input for system design

Functional NSPS PEO Organization



Design Process



Guiding Principles

Proposed NSPS design rooted in 7 Guiding Principles:

1. Put mission first – support National Security goals and strategic objectives
2. Respect the individual; protect rights guaranteed by law
3. Value talent, performance, leadership and commitment to public service
4. Be flexible, understandable, credible, responsive, executable
5. Ensure accountability at all levels
6. Balance HR interoperability with unique mission requirements
7. Be competitive and cost effective

Operational Requirements: Key Performance Parameters

- DoD established Key Performance Parameters (KPPs) to describe required attributes and features of the system – these KPPs guided the working groups and senior leaders in developing and considering options
  - **High Performing**: *Employees/supervisors are compensated/retained based on performance/contribution to mission*
  - **Agile & Responsive**: *Workforce can be easily sized, shaped, and deployed to meet changing mission requirements*
  - **Credible and Trusted**: *System assures openness, clarity, accountability and merit principles*
  - **Fiscally Sound**: *Aggregate increases in civilian payroll, at the appropriations level, will conform to OMB fiscal guidance; managers will have flexibility to manage to budget*
  - **Supporting Infrastructure**: *Information Technology support and training and change management plans are available and funded*
  - **Schedule**: *NSPS will be operational and demonstrate success prior to November 2009*

Design Milestones

- February 14 publication in Federal Register of proposed NSPS regulations for public comment (30 days)
- Statutory review & comment by employee unions (30 days); concurrent with public comment period
- Full and fair consideration of comments and recommendations
- Meet and confer period with employee unions (minimum of 30 days)
  - Discuss areas of contention; attempt to reach agreement
  - Assistance from Federal Mediation and Conciliation Service
- Notify Congress of outcome of meet and confer (30 days)
- Finalize regulations

Notice and Comment Information

- The proposed NSPS regulations are subject to change, based on consideration of formal comments received during the comment period and the results of the meet and confer process with employee representatives; decisions on NSPS are not final until final regulations are published (targeted for late spring)

- Individuals are encouraged to read the full text of the proposed regulations and provide comments and/or recommendations on the proposal

- The 30-day comment period is the opportunity to submit formal comments on the regulations; comments must be received by March 16, 2005

- Methods for submitting comments:
  - Internet: visit www.cpms.osd.mil/nsps to access the proposed regulations, review background information on NSPS, and formally submit comments via the web
  - U.S. Mail: formal [illegible]nt to:

Program Executive Office, NSPS
Attn: Brad Bunn
1400 Key Boulevard, Suite B-200
Arlington, Virginia 22209-5144

NSPS Major Design Elements

Classification
- Pay architecture
- Job descriptions
- Occupational groupings

Pay/Compensation
- Market sensitive pay
- Performance-based pay
- Pay setting

Performance Mgmt
- Setting expectations
- Communicating/feedback
- Appraising performance
- Addressing poor performance

Hiring
- Hiring authorities
- Examining procedures

Reduction in Force
- Procedures for resizing organizations
- Defining competitive areas
- Factors for retention

NSPS proposal changes rules in these areas

Adverse Actions
- Dealing with performance and/or conduct problems
- Procedures for taking actions

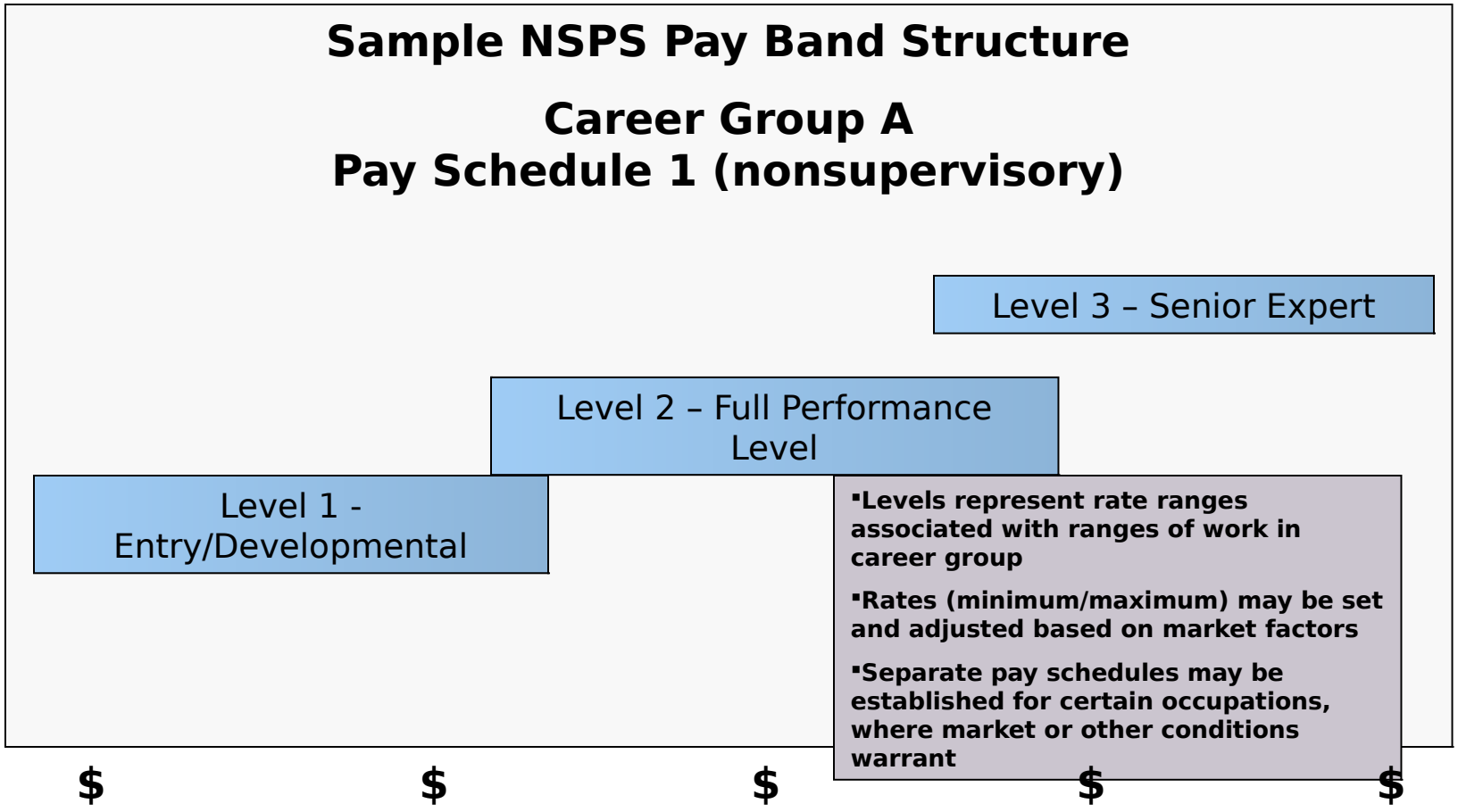
Appeals
- Procedures for appealing adverse actions
- MSPB role

Labor Relations
- Collective bargaining rights
- Scope of bargaining
- Bargaining process
- Resolving labor disputes

NSPS Does <u>Not</u> Change

- Merit System Principles
- Rules against prohibited personnel practices
- Veterans Preference
- Benefits (retirement, health, life, etc.)
- Anti-discrimination laws
- Fundamental due process
- Allowances and travel/subsistence expenses
- Training
- Leave and work schedules
- Other personnel systems in law
- Lab Demo organizations (until FY 08)

Pay Band Illustration


Sample NSPS Pay Band Structure
Career Group A
Pay Schedule 1 (nonsupervisory)
Level 3 – Senior Expert
Level 2 – Full Performance Level
Level 1 - Entry/Developmental
▪Levels represent rate ranges associated with ranges of work in career group
▪Rates (minimum/maximum) may be set and adjusted based on market factors
▪Separate pay schedules may be established for certain occupations, where market or other conditions warrant
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Pay/Compensation

- The proposed pay system is intended to attract, develop, retain, and reward high-performing employees through appropriate compensation

- Regulations provide framework for DoD to move towards market sensitive pay
  - Consideration of local market conditions to set pay band rates
  - Market factors taken into account on setting pay for new hires

- Annual performance pay increases
  - Based on performance/contribution, rather than longevity
  - Larger increases to outstanding performers
  - Increases not given to unacceptable performers

- Adjustments to rate ranges determined by Secretary – increases associated with rate range adjustments not given to unacceptable performers

- Greater flexibility in pay setting upon promotion, reassignment, etc.

Performance Management

- The NSPS proposed performance management system is designed to foster a high-performing culture, encourage employee engagement and robust communication, and enhance the overall effectiveness of the Department
- Cornerstone of a successful performance-based pay system
- Supervisors work with employees to establish performance goals and expectations, aligned with mission-related goals
- Recognition of conduct (behavior, professional demeanor) as an element of performance
- Ongoing feedback and communication between supervisor and employees
- Intense training planned (employees, supervisors, managers, HR community)
- Ratings reflect meaningful distinctions in employee performance (no forced distribution or quotas)
- Formal process to be established to challenge ratings

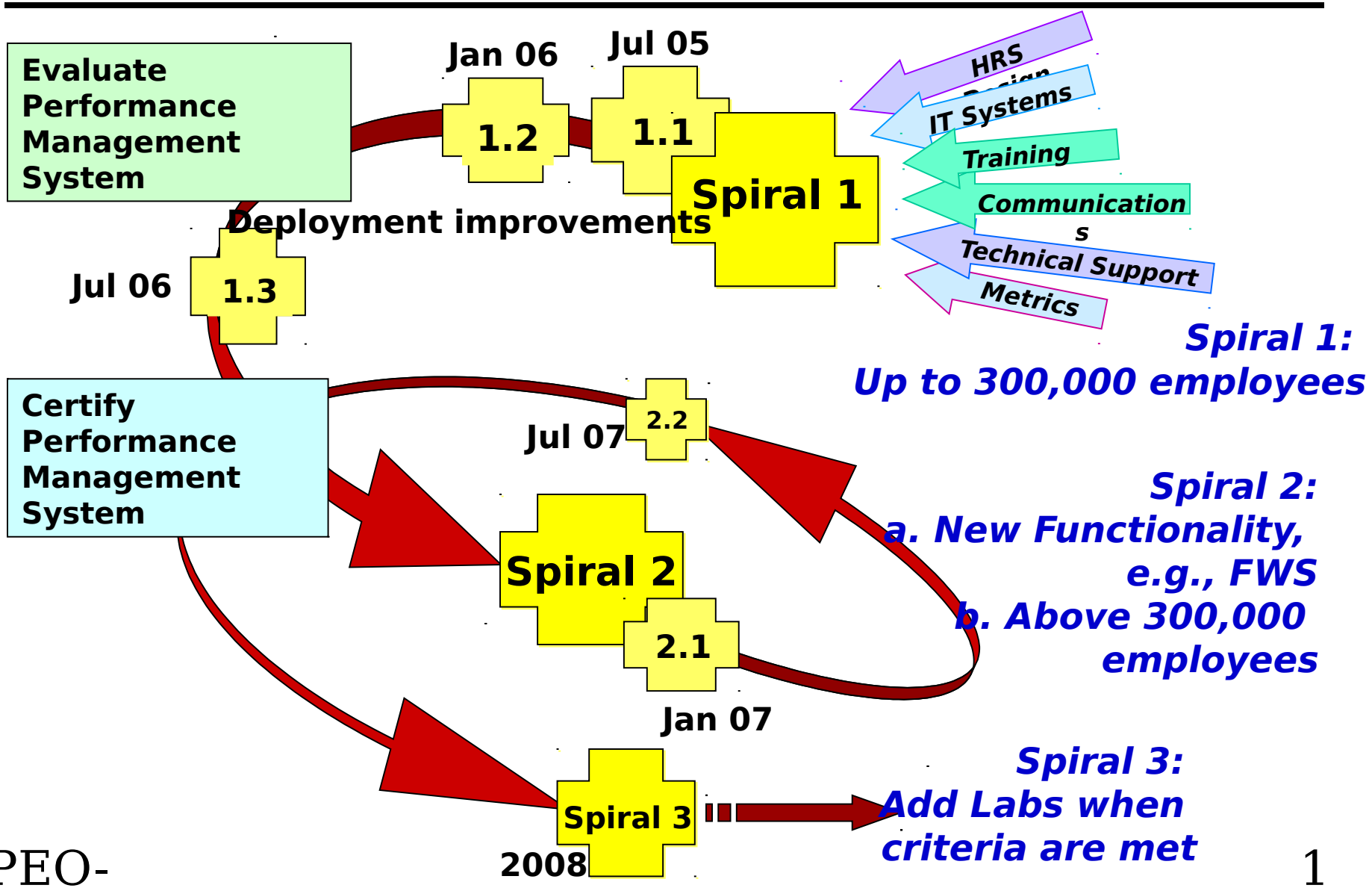
Hiring/Staffing

- NSPS proposal provides flexibilities to improve hiring processes, attract high-quality applicants, and enable DoD to meet critical mission requirements, while respecting principles of merit and fitness, and preserving veterans' preference
- DoD, with OPM, may establish new hiring authorities, tailored to DoD's needs
- No change in veterans' preference
- Government-wide hiring authorities and tools retained
- Direct-hire authority for severe shortage or critical needs vested in Secretary
- Opportunity to improve, streamline examining procedures to speed up the hiring process

Adverse Actions

- Proposed changes designed to recognize need for workplace accountability, provide efficient tools for dealing with performance and conduct issues, and protect rights of employees
- Single process for taking adverse actions based on performance and/or conduct
- Streamlined 15-day notice/10-day reply period
- Ensures due process
- Allows Secretary to designate Mandatory Removal Offenses (MROs)
  - Proposed regulations provide Secretary authority to establish MROs, but do not specify offenses
  - Recognizes potential need to identify list of offenses so egregious as to warrant mandatory removal, reserving authority to mitigate penalty to Secretary only
  - Development and publication of MROs would include input from employee representatives

Spiral Strategy



Spiral Coverage

- Spiral 1.0 includes up to 300,000 white collar employees across the entire Department of Defense
  - Spiral 1.0 implementation occurs in three phases (1.1, 1.2, and 1.3) over an 18-month period beginning as early as July 05

- Within the Department of the Navy, Spiral 1.0 is defined as follows:
  - Spiral 1.1: 12,500 employees, 13 Major Claimants
  - Spiral 1.2: 24,000 employees, 14 Major Claimants
  - Spiral 1.3: 43,500 employees, 8 Major Claimants

- Spiral 2.0 occurs after assessment cycle and includes the remaining DON white collar population and all DON blue collar employees (except MSC)

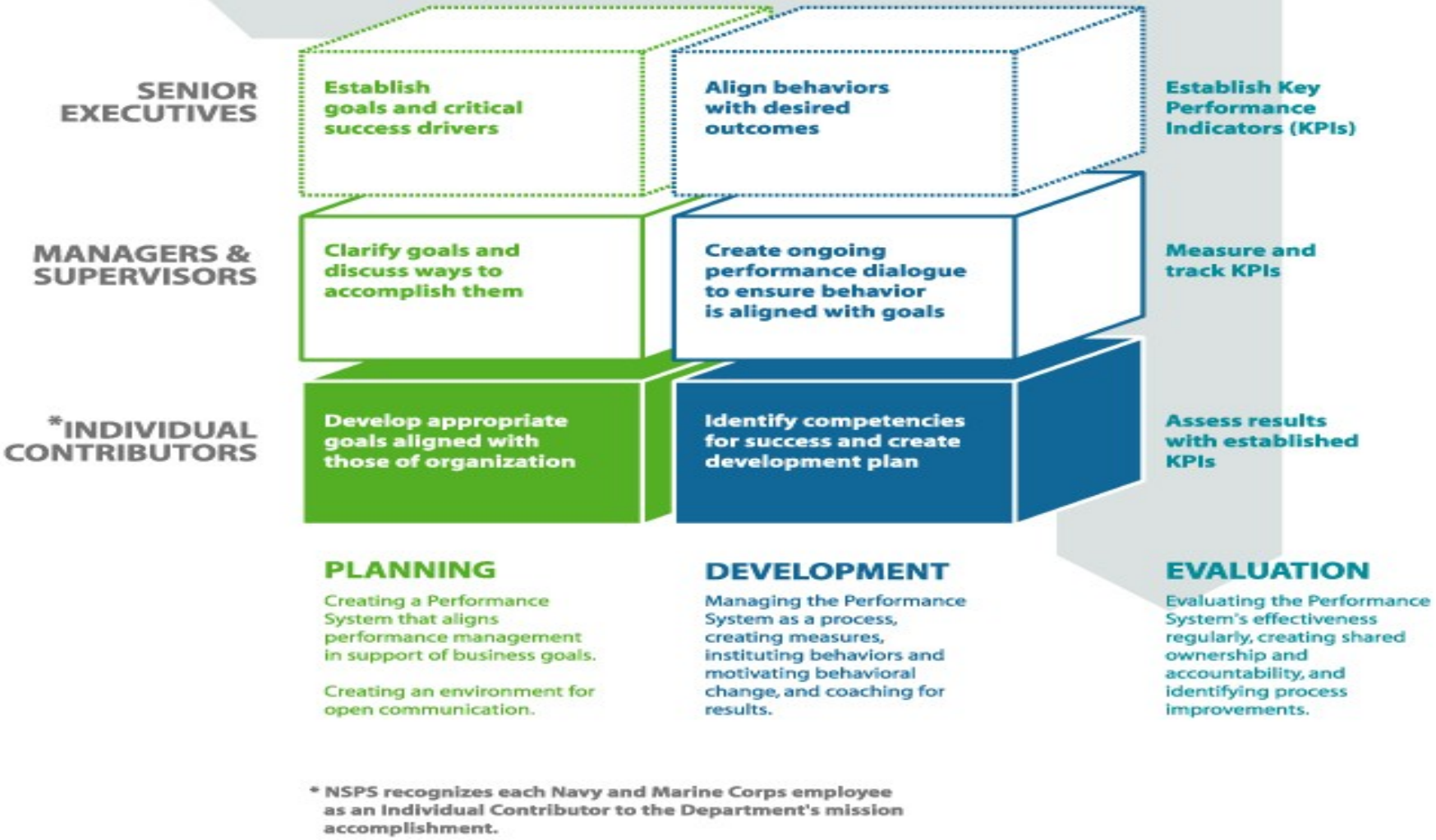
- Spiral 3.0 is comprised of the Reinvention Labs and Mariners (if decision made to include)

Learning Objectives

- Foster a culture that:
  - Focuses on results
  - Values performance
  - Rewards contributions
  - Promotes excellence
- Educate employees about NSPS
- Teach skills and behaviors necessary to implement and sustain NSPS
- Foster support and confidence in NSPS
- Fulfill requirements of 5 USC 9902
- Move to a high-performance organizational culture

DON NSPS Training Plan:

High Performance Dialogue Vision


SENIOR EXECUTIVES
MANAGERS & SUPERVISORS
*INDIVIDUAL CONTRIBUTORS
Establish goals and critical success drivers
Align behaviors with desired outcomes
Establish Key Performance Indicators (KPIs)
Clarify goals and discuss ways to accomplish them
Create ongoing performance dialogue to ensure behavior is aligned with goals
Measure and track KPIs
Develop appropriate goals aligned with those of organization
Identify competencies for success and create development plan
Assess results with established KPIs
PLANNING
Creating a Performance System that aligns performance management in support of business goals.
Creating an environment for open communication.
DEVELOPMENT
Managing the Performance System as a process, creating measures, instituting behaviors and motivating behavioral change, and coaching for results.
EVALUATION
Evaluating the Performance System's effectiveness regularly, creating shared ownership and accountability, and identifying process improvements.
* NSPS recognizes each Navy and Marine Corps employee as an Individual Contributor to the Department's mission accomplishment.

Behavioral Competencies

- **Change Management**
- **Strategic Alignment and Thinking**
- **Interpersonal Communications**
- **Coach and Develop People**
- **Performance Management**

Blended Learning Approach:

- **E-Learning courses: *wwwa.nko.navy.mil***
- **Harvard Manage-Mentor Tools**
- **Classroom Training: Coaching for High Performance**

Roles/ Responsibilities

- Executive Sponsor:
  - Military/ Civilian Organizational Commander
    - Champion the Change
    - Reinforce/ customize compelling business reason for change
    - Constant communication of clear message
    - Model the behavior
- Change Agent: Already Identified
  - Manage Claimant/ Activity change management plan
    - Form Command Team
    - Develop Communications
    - Market/PlanTraining (with Training PM)
    - Address CLC assessment results
  - Two meetings already conducted (August & November)
  - Change Plans being developed
- Project Manager: Already Identified
  - Develop deployment project plan
  - Manage plan via IPTs, e.g., Training/ Communication/ Conversion
    - Change Agents either IPT or closely aligned
    - HR participation essential

Implementation Challenges

- Changing culture from Entitlement to Performance
  - Pay linked to performance
  - Performance Evaluations need to be specific and defensible
    - Communicating and documenting performance goals
    - Providing professional feedback to employees on performance

- Budgeting/Managing Costs
  - WGI Buyout
  - Controlling pay increases within the bands
  - Ensuring performance is tied to business results

- Technology
  - Systems for documenting and tracking performance goals/ pay models

Getting Ready

- Educate the workforce, military and civilian
- Hone Communication Skills: Giving and Receiving Feedback
- Begin to think about performance measures/outcomes
- Ensure Strategic Plan is current and has been communicated to all employees
- Ensure accuracy of Position Descriptions/Series
- Stay tuned for budget implications
- Check the web sites for updates: *www. cpms.osd.mil/nsps* *wwwa.nko.navy.mil* and *www.donhr.navy.mil/nsps*